
CAQ Releases New Tool for Upcoming CAMs Disclosure

JULY 25, 2018

Earlier this week, the Center for Audit Quality released *Critical Audit Matters: Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements*. The tool builds upon the CAQ's December 2017 tool, which was designed to assist audit committees navigate the new auditor's reporting model. (See our prior [post](#)) Among the changes to the auditor's report that were adopted as part of the new auditor's reporting model (see our prior [post](#)), the upcoming requirement for auditors to communicate critical audit matters (CAMs) in the audit report is the most significant, and the new CAQ tool provides a useful summary for understanding the new CAMs disclosure.

Hewing closely to the PCAOB's [adopting release](#) for the new auditor's reporting model, the new tool describes the basic CAMs disclosure requirements, the placement of CAMs disclosure in the audit report, and the various principles-based considerations that auditors may undertake to prepare CAMs disclosure. The new tool also includes a helpful set of FAQs that address common questions raised by audit committees about the CAMs disclosure.

As explained in the new tool, CAMs disclosure is intended to provide financial statement users with more meaningful information related to the audit of a company's financial statements. CAMs are defined as matters arising from the audit that were communicated or required to be communicated to the audit committee and that (a) relate to "accounts or disclosures that are material to the financial statements" and (b) involved "especially challenging, subjective, or complex auditor judgment." As the new tool (and the PCAOB's adopting release) makes clear, CAMs disclosure will involve a certain degree of auditor judgment, and not all significant risks or all matters that are communicated to audit committees will be CAMs. It is expected that the new requirement may lead to enhanced discussion among auditors, management, and audit committees.

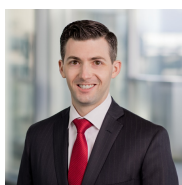
Illustrating the expected benefits of CAMs disclosure, the new tool presents insights from the reporting of "key audit matters" or "KAMs" in non-U.S. jurisdictions, which became effective under International Auditing and Assurance Board rules for December 2016 year-end audits in many jurisdictions. Based on a report by the Association of Chartered Certified Accountants, disclosure of KAMs benefits the financial reporting process by contributing to better governance, higher audit quality and higher quality financial reporting:

- KAMs encourage better conversations between the auditor and those charged with governance which in turn contributes to better governance;
- KAMs help the auditor to focus on the areas of the audit requiring the most careful judgment which in turn contributes to higher audit quality; and
- KAMs give preparers incentives for revisiting financial reporting and disclosures in areas related to those KAMs which in turn leads to better financial reporting, and in turn contributes to higher quality financial reporting.

Considering commonalities between the CAMs and KAMs disclosure requirements, it is expected that similar benefits will inure to the financial reporting process in the U.S.

Looking forward, CAMs disclosure will first be included in audit reports for audits of large accelerated filers with fiscal years ending on or after June 30, 2019 (i.e., for calendar year companies, audit reports filed in 2020), and then for audits of all other companies to which the disclosure applies with respect to fiscal years ending on or after December 15, 2020 (i.e., audit reports filed in 2021). Many audit firms are preparing for the upcoming effective date and are in the process of performing “dry runs” to refine their methodology for determining what matters constitute CAMs and their process for engaging with management and audit committees on such matters. The PCAOB has indicated that it will conduct post-implementation reviews of the CAMs disclosure requirement. Noting that “implementation of the CAM requirements is in its early days,” the CAQ “encourage[s] audit committees and other stakeholders to remain engaged in understanding what the reporting of CAMs may look like in the future.”

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